McGladrey & Pullen
Certified Public Accountants

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2005

Performed as Special Assistant Auditors
For the Auditor General, State of Illinois

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2005

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Financial Statement Report

The financial statements of the State of Illinois, Illinois Finance Authority as of June 30, 2005 and for the year then ended are published in a separate document and are incorporated herein by reference

Authority Officials

Executive Director	Ali Ata	07/01/04 – 03/07/05
Acting Executive Director	Jill Rendleman	03/08/05 - Current
Chairman of the Board of Directors	David C. Gustman	
Chief Financial Officer	Jose Garcia	03/28/05 - Current
Chief Administrative Officer	Michael Pisarcik	07/01/04 – 05/15/05
	Stuart Boldry	05/16/05 - Current
Legal Counsel	Anthony D'Amato	
Board Member	Demetris A. Giannoulias	
Board Member	Michael Goetz	
Board Member	Dr. Roger D. Herrin	07/06/04 - Current
Board Member	Edward H. Leonard Sr.	
Board Member	Martin Nesbitt	
Board Member	Terance M. O'Brien	
Board Member	Andrew W. Rice	
Board Member	Joseph P. Valenti	
Board Member	James Fuentes	04/06/05 - Current
Board Member	Magda Boyles	06/24/05 - Current
Board Member	Bradley A. Zeller	02/28/05 - Current
Board Member	Juan B. Rivera	08/15/05 - Current
Board Member	Ronald E. DeNard	09/02/05 - Current
Board Member	Natalia Delgado	
Board Member	Timothy K. Ozark	07/01/04 - 06/01/05

Authority offices are located at:

Chicago Office
180 N. Stetson Avenue
Suite 2555
Chicago, Illinois 60601

Carbondale Office
150 E. Pleasant Hill Road
Carbondale, Illinois 62901

Springfield Office
217 E. Monroe Street
Suite 202
Springfield, Illinois 62701

Peoria Office
124 SW Adams Street
Suite 300
Peoria, Illinois 61602

IFA
ILLINOIS FINANCE AUTHORITY

Governor / Rod R. Blagojevich
Executive Director / Ali D. Ata

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180 N. Stetson Ave., Ste. 2555
Chicago, IL 60601
312.651.1300
312.651.1350 fax
www.il-fa.com

MANAGEMENT ASSERTION LETTER

November 30, 2005

McGladrey & Pullen, LLP
Certified Public Accountants
20 North Martingale Road Suite 500
Schaumburg, Illinois 60173

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Authority. We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Authority's compliance with the following assertions during the year ended June 30, 2005. Based on this evaluation, we assert that during the year ended June 30, 2005, the Authority has materially complied with the assertions below.

A. The Authority has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The Authority has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

C. The Authority has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. The State revenues and receipts collected by the Authority are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

E. The money or negotiable securities or similar assets handled by the Authority on behalf of the State or held in trust by the Authority have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

Illinois Finance Authority

Jill Rendleman, Director

Jose Garcia, Fiscal Officer

SPRINGFIELD | 427 E. Monroe St., Ste. 202, Springfield, IL 62701 | 217.782.5792 | 217.782.3989 fax
PEORIA | 124 S.W. Adams St., Ste. 300, Peoria, IL 61602 | 309.495.5959 | 309.676.7534 fax
CARBONDALE | 150 E. Pleasant Hill Rd., P.O. Box 46, Carbondale, IL 62903 | 618.453.5566 | 618.453.4332 fax

Compliance Report

Summary

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

Auditors' Reports

The Independent Accountants' Report on State Compliance, on Internal Control over Compliance and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

Summary of Findings

Number of	This Report	Prior Report
Findings	9	14
Repeated findings	3	N/A
Prior recommendations implemented or not repeated	11	N/A

Details of findings are presented in a separately tabbed report section.

Schedule of Findings

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Compliance Report

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Item No.	Page	Description
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Exit Conference

The findings and recommendations appearing in this report were discussed with Authority personnel at an exit conference on April 13, 2006. Attending for the Illinois Finance Authority were Jill Rendleman, Acting Executive Director; Jose Garcia, Chief Financial Officer; Bryan Hynes, Contract Legal Counsel; Burt Nuehring, Contract Internal Audit; and Jeff Pruyn, Contract Accountant. Attending for McGladrey & Pullen, special assistant auditors were Joe Evans, Partner and Sean Hickey, Supervisor. Attending for the Office of the Auditor General was Jon Fox, Audit Manager. Responses to the recommendations were provided by Jill Rendleman, Acting Executive Director in a letter dated April 26, 2006

McGladrey & Pullen
Certified Public Accountants

Independent Accountants' Report on State Compliance,
on Internal Control Over Compliance, and on
Supplementary Information for State Compliance Purposes

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined State of Illinois, Illinois Finance Authority's (Authority) compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2005. The management of the Authority is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Authority's compliance based on our examination.

A. The Authority has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The Authority has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

C. The Authority has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. The State revenues and receipts collected by the Authority are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

E. Money or negotiable securities or similar assets handled by the Authority on behalf of the State or held in trust by the Authority have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Authority's compliance with specified requirements.

In our opinion, the Authority complied, in all material respects, with the aforementioned requirements during the year ended June 30, 2005. However, the results of our procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying Schedule of Findings as findings 05-02, 05-03, 05-04, 05-05, 05-06, 05-07, and 05-08. As required by the Audit Guide, immaterial findings relating to internal control deficiencies excluded from this report have been reported in a separate letter to your office.

Internal Control

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations. In planning and performing our examination, we considered the Authority's internal control over compliance with the aforementioned requirements in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General.

We noted certain matters involving internal control over compliance and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Authority's ability to comply with one or more of the aforementioned requirements. Reportable conditions are described in the accompanying Schedule of Findings as finding 05-01.

A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to one or more of the aforementioned requirements being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. Additionally, the results of our procedures disclosed other deficiencies in internal control, which are required to be reported in accordance with criteria established by the Audit Guide issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of State findings and questioned costs as findings 05-03, 05-04, 05-05, 05-06, 05-07, and 05-09. As required by the Audit Guide, immaterial findings relating to internal control deficiencies excluded from this report have been reported in a separate letter to your office.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of each major fund, and the aggregate remaining fund information of the Illinois Finance Authority as of and for the year ended June 30, 2005, which collectively comprise the Illinois Finance Authority's basic financial statements, and have issued our report thereon dated November 30, 2005. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Illinois Finance Authority. The 2005 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2005, taken as a whole. We have also previously audited, in accordance with auditing standards generally accepted in the United States, the Illinois Finance Authority's basic financial statements for the six months ended June 30, 2004. In our report dated December 23, 2004, we expressed an unqualified opinion on the respective financial statements of each major fund, and the aggregate remaining fund information. In our opinion, the 2004 Supplementary Information for State Compliance Purposes, except for the portion marked "unaudited" is fairly stated in all material respects in relation to the basic financial statements for the six months ended June 30, 2004, taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and Authority management, and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
November 30, 2005

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with ***Government Auditing Standards***

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of each major fund and the aggregate remaining fund information of the State of Illinois, Illinois Finance Authority (Authority), as of and for the year ended June 30, 2005, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated November 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as item 05-01.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness. However, we noted certain deficiencies in the design or operation of internal control over financial reporting which do not meet the criteria for reporting herein and which are reported as State compliance findings in the schedule of findings. We also noted certain immaterial instances of internal control deficiencies, which we have reported to management of the Authority in a separate letter dated November 30, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 05-01. However, we noted certain matters which are reported as State compliance findings in the schedule of findings. We also noted certain other matters which we have reported to management of the Illinois Finance Authority in a separate letter dated November 30, 2005.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and Authority management, and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
November 30, 2005

Current Findings – ***Government Auditing Standards***

Finding # 05 – 01 Noncompliance with the State Officers and Employees Money Disposition Act

The Authority did not have sufficient collateralization for cash deposits held at three financial institutions.

The Authority had total uncollateralized cash deposits at June 30, 2005 of $1,324,659. The Authority had $400,839 of uncollateralized deposits at one bank for the entire fiscal year, $900,000 of uncollateralized deposits at another bank for six months of the fiscal year, and $23,820 of uncollateralized deposits at a third bank for one month of the fiscal year.

The State Officers and Employees Money Disposition Act (30 ILCS 230/2c) states, "Whenever funds deposited with a bank or savings and loan association exceed the amount of federal deposit insurance coverage, a bond, pledged securities, or other eligible collateral shall be obtained."

Management indicated that the uncollateralized deposits at two of the banks were due to improper collateral agreements when the funds were initially deposited and the uncollateralized deposits at the third bank were due to a fluctuation in the market value of the pledged securities.

The lack of compliance with the State Officers and Employees Money Disposition Act puts the Authority and the State at risk to lose uncollateralized deposits if a financial institution fails. (Finding Code No. 05 – 01)

Recommendation

We recommend the Authority review the procedures for monitoring deposit collateralization and implement controls to secure collateralization agreements prior to opening deposit accounts with balances over the FDIC limit.

Authority Response

The Authority accepts the recommendation. The lack of sufficient collateral on specific deposits was identified by management and reported to the auditors. A monthly review process has been implemented to help ensure that proper collateral levels are maintained in compliance with applicable requirements.

Current Findings – State Compliance

Finding # 05 – 02 Noncompliance with the Personnel Code – Incentive Based Compensation

The Authority paid $267,447 in bonuses during fiscal year 2005 to 23 employees based on an Incentive Based Compensation Plan.

Management indicated the Authority is exempt from the Personnel Code, therefore, allowing the Incentive Based Compensation Plan.

During our testing of personal services, we determined that the Authority was making payments to 23 employees based on the Authority's Incentive Based Compensation Plan. The Incentive Plan is calculated based on individual performance and the Authority's performance. The Plan's administrative rules contain a schedule of ranges and percentages for determining the incentive pay. The Authority paid a total of $267,447 for fiscal year June 30, 2005 to 23 eligible employees according to the Incentive Plan.

The Personnel Code "Increases in Pay" (80 Ill. Adm. Code 310.80) establishes the guidelines for increasing an employees pay. Approved methods include a satisfactory performance increase, a superior performance increase, promotion and reallocation, reevaluation and adjustments that require the prior approval of the Director of Management Services (DCMS). There is no provision in the Personnel Code for the payment of incentive pay or bonuses.

Incentive based payments contravene the guidelines for pay increases mandated in the Personnel Code. (Finding Code No. 05 – 02)

Recommendation

We recommend that the Authority conform its personnel practices to governing law. Further, the Authority should seek an opinion from the Attorney General to determine if the Authority is exempt from the Personnel Code.

Authority Response

The Authority accepts the auditor's recommendation but does not accept the finding. The Illinois Finance Authority Act, 20 ILCS 3501/801-1, exempts the Authority from the Personnel Code because it grants to the Authority the power to establish its own system of personnel administration. The Act requires that the Authority "employ agents and employees and independent contractors necessary to carry out its purposes and fix their compensation, benefits, and terms and conditions of their employment." Under the express language of the Personnel Code, "all offices and positions of employment in the service of the State of Illinois shall be subject to the provisions of the Act unless exempted in this or any other Act." Per the requirements of the Illinois Finance Authority Act, the Authority has established a system of personnel administration and the Authority does not participate in the State's pension retirement, health care, and other State employee benefits. The Authority bases its opinion on a 2004 legal opinion which reviewed the Act, the State Personnel Code, and case studies, and concluded that the Personnel Code did not apply to the Authority, therefore allowing for its own system of personnel administration, including a performance based incentive compensation program. In accordance with the auditor's recommendations, the Authority will seek an opinion from the Attorney General's Office regarding the applicability of the Personnel Code to the Authority and to other similar state authorities.

Auditors' Comment

Neither the Illinois Finance Authority Act nor the Personnel Code specifically excludes the Illinois Finance Authority from the Personnel Code. Under the Personnel Code all positions of employment in the service of the State of Illinois are subject to the provisions of the Personnel Code unless exempted either in the Personnel Code or in another law (20 ILCS 415/4). The auditors continue to believe that any such exemption must be express and not implied. If the Authority continues to disagree, we recommend it obtain a formal written opinion from the Attorney General on the matter.

Current Findings – State Compliance

Finding #05 – 03 Failure to Report Revenue Bond Information to the Illinois Office of the Comptroller

The Authority did not report required revenue bond information to the Illinois Office of the Comptroller (Comptroller).

During the fiscal year ended June 30, 2005, there were 818 conduit debt bonds with a total principal balance outstanding of $20.4 million that were in the care of the Authority. The Comptroller prepared a listing of revenue bonds that had delinquent reporting activity. A review of that listing, dated August 31, 2005, resulted in the following conditions being noted:

- 191 interest and 98 principal notice of payments were not reported in a timely manner.
- 385 interest and 68 principal notice of payments were past due and were not reported.
- 10 prospectuses and 9 maturity schedules were not received in a timely manner.

In our testing of 25 of 50 bonds issued in fiscal year 2005, we noted the Authority had implemented controls to improve its compliance with conduit debt loan and indenture agreement reporting requirements as reported in the prior year's finding.

Section 31.30.10 of the Statewide Accounting Management System (SAMS) requires that a copy of the prospectus and maturity schedule be submitted by the agency that issued the revenue bonds within 30 days subsequent to the closing date, or the beginning date of borrowing, whichever is later. In addition, section 31.30.20 of the SAMS manual requires a Notice of Payment to be submitted within 30 days from the date the voucher is processed for payment, or within 15 days from the Agency's receipt of the trustee's monthly statement.

Management indicated that there was miscommunication between the bond trustees and the Authority in regards to the reporting requirements of the bond trustees.

By not providing Information on new revenue bonds issued and the dates and amounts of principal payments made to the Comptroller it inhibits the Comptroller from performing its responsibilities to record and monitor State debt. (Finding Code No. 05 – 03; 04 – 03)

Recommendation

We recommend the Authority improve communications with the bond trustees and strengthen internal controls to ensure the Comptroller receives the required revenue bond reporting information in a timely manner.

Authority Response

The Authority accepts the recommendation. The Authority has implemented a system, with a designated compliance officer, to monitor Trustee compliance in order to improve reporting to the Illinois Office of the Comptroller. We have also met with the Comptroller's Office in 2005. The Comptroller's Office has agreed to provide feedback to the Authority to address delinquencies of the above forms. The Authority will then be able to follow up with the respective Trustees and improve bond compliance.

Current Findings – State Compliance

Finding # 05 – 04 Noncompliance with Illinois Procurement Code and Statewide Accounting Management System (SAMS) Procedures

The Authority did not have adequate procedures in place to ensure compliance with the Illinois Procurement Code and Statewide Accounting Management System (SAMS) Procedures relating to purchasing, contractual agreements and real estate lease agreements.

The Illinois Finance Authority entered into 44 contractual agreements (contracts) during the audit period. Of the 44 contracts we noted the following:

- 10 contracts (23%) (4 contracts with fixed fees totaling $1,500,604 and 6 with variable terms) had missing required contract content, such as contracts were not dated and signed by the contractor or contractors doing business under another name that was not clearly specified in the contract;
- 6 contracts (14%) (1 contract with fixed fees totaling $35,000 and 5 with variable terms) required to be filed with the Illinois Office of the Comptroller (Comptroller) were not filed with the Comptroller;
- 6 contracts (14%) (1 contract with fixed fees totaling $47, 500 and 5 contracts with variable terms) subject to competitive bidding were entered into without undergoing the competitive selection process;
- 6 contracts (14%) (1 contract with fixed fees totaling $47, 500 and 5 contracts with variable terms) required to be published in the Illinois Procurement Bulletin were not published;
- Disclosures of Financial Interest were not obtained for 8 contracts (18%) (2 contracts with fixed fees totaling $154,050 and 6 contracts with variable terms) requiring such disclosure;

During our detailed testing of four real estate lease agreements (leases), we noted the following:

- 1 out of 4 (25%) leases was not filed with the Comptroller;
- 1 lease (25%) stated a rate of $13.91 per square foot, which was effective 04/01/05, while the voucher that was processed reflected a $13.50 per square foot rate.

Illinois Procurement Code (30 ILCS 500/1-1 et. seq.) details the principles of competitive bidding and economical procurement practices applicable to all purchases and contracts, including, but not limited to, requirements as to which contracts are to be filed with the State Comptroller and DCMS, which contracts are to be published in the Illinois Procurement Bulletin; and required Disclosures of Financial Interest.

SAMS Procedure 15.50.10 states the appropriate contract content for each contract classification such as professional and artistic services, real property leases and other contracts.

Current Findings – State Compliance

Finding #05 – 04 Noncompliance with Illinois Procurement Code and Statewide Accounting Management System (SAMS) Procedures (Continued)

Management indicated that many of the contracts subject to this finding were put in place before the Authority had appropriate procedures in place to ensure all regulations were followed. As these contracts expire, the newer contracts will be done within appropriate procurement regulations.

The lack of compliance with State statute and SAMS procedures undermines the principle of accountability through public disclosure, increases the risk of overpaying for contractual services, of the State bearing additional risk not addressed in contractual provisions, and of contracting with parties with a conflict of interest with the Authority or the State. (Finding Code No. 05-04; 04-05)

Recommendation

We recommend that the Authority implement controls and procedures to ensure compliance with the Illinois Procurement Code and SAMS procedures when procuring contractual services.

Authority Response

The Authority accepts the recommendation. The Authority has implemented procedures to comply with the State Procurement Code. The Authority has added resources to the IFA procurement process by hiring a Compliance Officer. The Compliance Officer will ensure that all State Procurement requirements are met for all contracts/purchases.

Current Findings – State Compliance

Finding #05 – 05 Voucher Processing Controls Need to be Improved

The Authority did not have adequate controls in place to ensure all payment vouchers were processed in accordance with established procedures.

During our audit, we tested 210 vouchers totaling $354,016. The Authority was not able to locate 1 voucher totaling $504.98

Of the remaining 209 vouchers, we noted the following:

- 72 vouchers (35%) totaling $251,888 did not document the receipt date of the invoice;
- 3 vouchers (1%) totaling $5,763 did not document the Chief Administrative Officer's approval;
- 2 vouchers (1%) totaling $7,341 did not document the date of approval of the Chief Administrative Officer;
- 5 vouchers (2%) totaling $5,644 was approved later than 30 days from receipt of invoice;
- 2 vouchers (1%) totaling $1,437 were paid later than 60 days from receipt of invoice, interest due on each invoice was less than $50; per the State Prompt Payment Act and implementing rules, the vendor would have to request payment of interest under $50;
- 3 vouchers (1%) totaling $6,317 did not document proper account distribution code;
- 1 voucher (1%) totaling $404 did not agree to supporting documentation;
- 3 vouchers (1%) totaling $65,022 representing expenses from the previous fiscal year were charged to this fiscal year;
- 1 voucher (1%) totaling $15,000 was approved earlier than invoice date;
- 2 travel vouchers (3%) totaling $666 did not include documentation supporting the non-mileage reimbursement claimed.

The Illinois Administrative Code (74 Ill. Adm. Code 900.30) and the Illinois Finance Authority (Authority) Accounting Policies & Procedures Manual (Procedure 50.30.000) requires documentation of the date the goods or services were received, the date a Proper Bill was received and the date of approval of vouchers by the Chief Administrative Officer. In addition the Illinois Administrative Code (74 Ill. Adm. Code 900.20 and 900.70) requires the Chief Administrative Officer to approve or deny bills within 30 days of receipt with approval acknowledging that the invoice is for goods or services rendered or received and pay invoices within 60 days of receipt.

Generally accepted accounting principles require enterprise funds to use the accrual basis of accounting. Under the accrual basis of accounting expenses are recognized in the period the goods or services were received regardless of when the cash was paid.

Current Findings – State Compliance

Finding #05 – 05 Voucher Processing Controls Need to be Improved (Continued)

Management indicated that the vouchers that did not document the receipt date on the invoice were still paid timely. Management indicated the three invoices not properly expensed in the prior fiscal year were due to oversight.

Failure to comply with the procedures is a weakness in internal control that could result in erroneous or duplicate payments, or other errors that may not otherwise be detected. Failure to record expenses in the proper accounting period results in inaccurate measurement of profit or loss of enterprise funds. (Finding Code No. 05 – 05; 04 – 06)

Recommendation

We recommend that the Authority document the receipt date on all incoming invoices and continue to strengthen controls over voucher processing to ensure compliance with State statute, administrative rule, Authority policies and procedures and generally accepted accounting principles.

Authority Response

The Authority accepts the recommendation. We have implemented a more stringent process to date invoices when they are received. The new process includes procedures for additional review of the documentation of receipt date. In addition, the additional review ensures compliance with the IFA voucher processing policies and procedures.

Current Findings – State Compliance

Finding # 05 –06 Untimely Submission of Quarterly State Property Reports With the Illinois Office of the Comptroller.

The Authority failed to timely file the quarterly Agency Report of State Property with the Illinois Office of the Comptroller (Comptroller).

During our compliance examination of fiscal year 2005, we noted that the Agency Report of State Property (Form C-15) for the quarter ended September 30, 2004 due October 31, 2004 was filed 86 days late. The cost basis of property and equipment of the Authority was $282,321 at June 30, 2005.

The Statewide Accounting Management System (SAMS) procedure 29.20.10 requires the Authority to file the Form C-15 report on a quarterly basis with the Comptroller no later than the last day of the month that follows the last day of the quarter.

Authority personnel stated that the C-15 report was filed late due to an oversight by former management.

Failure to timely file the Agency Report of State Property impairs the Comptroller's ability to timely compile summary information of property held by or on behalf of the State. (Finding Code No. 05-06)

Recommendation

We recommend that the Authority implement procedures to ensure that the quarterly Agency Reports of State Property are filed on time with the Comptroller.

Authority Response

The Authority accepts the recommendation. We have implemented procedures to ensure timely submission of the C-15 reports. The second, third, and fourth quarter 2005 reports were filed on time.

Current Findings – State Compliance

Finding # 05 – 07 Untimely Submission of Receipt Deposit Transmittals With the Illinois Office of the Comptroller

The Authority failed to timely submit Receipt Deposit Transmittals (C-64 Form) with the Illinois Office of the Comptroller (Comptroller).

During our examination of revenues and receipts, we noted that the Springfield office of the Illinois Finance Authority (Authority) did not forward any deposit receipts to the Chicago office until April. Therefore, the Authority did not submit Form C-64 to the Comptroller for the deposit receipts between September 2004 and March 2005. A C-64 Form was submitted on April 26, 2005 to catch up for receipts from September 2004 through March 2005. The following are the monthly receipts that were included on the C-64 submitted on April 26, 2005:

- September - $2,283.54
- October - $2,283.54
- January - $20,229.25
- March - $4,567.08

The Statewide Accounting Management System (SAMS) procedure 25.10.10 (Receipts and Cash Refunds) states, "Before moneys may be deposited with the Treasurer, the Office of the Comptroller must receive the moneys in the form of State Treasurer's Draft or other Treasurer-acceptable remittances and order the moneys to be deposited." SAMS procedure 25.20.10 describes the Receipts Transmittal, Form C-64 to be used to deposit all receipts into the Treasury. This form must be used when receipts are submitted to the Comptroller for ordering money into a fund.

Authority personnel stated that they were not aware of this filing requirement.

Failure to timely file the Receipt Deposit Transmittal Forms with the Comptroller inhibits the Comptroller from ordering money into a fund for deposit with the State Treasurer. (Finding Code No. 05-07)

Recommendation

We recommend that the Authority implement procedures to ensure that all Receipt Deposit Transmittal Form C-64's are filed on time with the Office of the State Comptroller.

Authority Response

The Authority accepts the recommendation. We have implemented a process to file the C-64 forms on a timely basis.

Current Findings – State Compliance

Finding # 05 –08 Non-Compliance with Printing Requirements of the Procurement Code

The Authority failed to comply with the printing requirements of the Procurement Code.

Auditors noted that numerous documents examined during the current examination printed by the Authority did not contain the written acknowledgement of the authority to print by the State of Illinois and other information required by the Procurement Code.

According to the Illinois Procurement Code (30 ILCS 500/20-105), all items published by the State of Illinois or any State agency shall have printed thereon: "Printed by the authority of the State of Illinois," the date of each publication, the number of copies printed, and the printing order number.

Authority personnel stated that the Authority was not aware of this requirement until the auditors inquired about the matter.

By not printing the information required on printed documents the Authority is failing to acknowledge the Authority to print by the State, the date the documents were printed, the number of documents and the order number authorizing the authority to print. (Finding Code No. 05-08)

Recommendation

We recommend that the Authority comply with the printing requirements of the Procurement Code on all of its publications.

Authority Response

The Authority accepts the recommendation. Future publications will comply with printing requirements.

Current Findings – State Compliance

Finding # 05–09 Lack of Interest Rate Risk and Credit Risk Policy

The Authority's Investment Policy does not specifically address two specific types of investment risk exposure.

During our audit of the Authority's financial statements we determined that the Authorities investment policy does not address interest rate risk or credit risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. Generally the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Credit risk is the risk that an issuer of a debt investment will not fulfill its obligation to the holder of the investment. The Authority had $9,728,142 invested in federal agency securities and investment contracts subject to interest rate risk and $34,919,056 in investments subject to credit risk at June 30, 2005.

Good business practices would indicate that an investment policy should include a specific policy that addresses interest rate risk and credit risk.

Authority management stated it is their intent to update its investment policies to address interest rate and credit risk but have not yet done so at this time.

Lack of a formal policy for interest rate risk and credit risk could subject the Authority to undue risk not directed by specific guidelines. (Finding Code No. 05–09)

Recommendation

We recommend that the Authority update their current investment policy to include a policy for interest rate risk and credit risk.

Authority Response

The Authority accepts the recommendation. While this finding represents no violation of State or Federal law or regulation, the Authority agrees to make recommended changes to the Authority's Investment Policy.

Prior Findings Not Repeated – *Government Auditing Standards*

Finding #05 – 10 Lack of Comprehensive Accounting System and Procedures

The Illinois Finance Authority (Authority) did not have a comprehensive accounting system and procedures in place for the period under audit.

The Authority was formed January 1, 2004 by combining seven prior authorities with similar functions. At January 1, 2004, a comprehensive accounting system was not in place at the Authority. The Authority utilized one of the accounting systems of the previous authorities until a new system was put in place in May 2004. As such, much of the information from early 2004 needed to be transferred from the previous system to the new accounting system. The failure to have a comprehensive accounting system and procedures in place from the beginning of the year (due to the start of the business) resulted in numerous accounting and financial reporting problems. (Finding Code No. 04-01)

The Illinois Finance Authority has taken steps to implement a comprehensive accounting system and to develop accounting policies and procedures. During the course of our financial audit and compliance examination, we noted certain steps that have been taken to implement the accounting system.

Finding # 05 – 11 Inadequate Segregation of Duties

The Authority did not have an adequate segregation of duties in its accounting and financial reporting area.

During our review of internal controls, we noted that personnel responsible for payables are not independent of purchasing, receiving, disbursing, and general ledger functions; an independent person does not mail checks payable to vendors; the person conducting the inventory of capital assets is not independent of the capital asset record keeping function; a member of management does not review detailed capital asset records; and the staff accountant maintains the general ledger, and prepares and reconciles the loan status report. (Finding Code No. 04-02)

During the implementation of certain accounting policies and procedures, the Illinois Finance Authority created procedures that require a proper segregation of duties as it pertains to the financial reporting process. During our financial audit, we noted certain steps have been taken to implement those procedures.

Prior Findings Not Repeated – State Compliance

Finding # 05 – 12 Inadequate Internal Control Review of Bond Trustees

The Authority did not have adequate procedures for reviewing internal controls in place at trustee banks that administer outstanding bonds.

The Authority had not evaluated the significance of the 55 trustees and paying agents to determine which trustees are performing accounting functions significant to the Authority's operations. Because of the significance of the procedures performed, many of the trustees have an internal control review performed by an outside auditor in the form of a SAS 70 report. (Finding Code No. 04-04)

The Illinois Finance Authority now obtains SAS 70 reports for the bond trustees in order to obtain certain information on the bond trustees that process transactions that are significant to the Illinois Finance Authority's operations. SAS 70 reports were obtained from all service organizations the Authority did business with during fiscal year 2005. We noted the Authority had reviewed those reports.

Finding # 05 – 13 Non-submission of Credit Enhancement Development Fund Report

The Authority did not submit the required report for the Credit Enhancement Development Fund to the Governor and General Assembly. The report was required to be filed by June 1, 2004 by the Illinois Finance Authority Act (20 ILCS 3501/825-15). (Finding Code No. 04-07)

The Authority submitted the Credit Enhancement Development Fund Report on January 27, 2005. This section of the Illinois Finance Authority Act (20 ILCS 3501/825-15) was repealed effective July 1, 2005.

Finding # 05 – 14 Inadequate Maintenance of Personnel Files

The Authority did not properly maintain its personnel files.

During our detailed testing, we noted that various personnel files were missing required documentation including employment application forms, job descriptions, source documents to validate gross pay, authorization forms to support payroll deductions, vacation and sick leave monitoring sheets, direct deposit authorization forms, educational loan certifications and statement of child support obligation. (Finding Code No. 04-08)

The Authority reviewed all of its personnel files and updated each file with the required documents. Except for one minor exception noted in the course of our examination, each personnel file contained updated documentation for the previously missing information

Prior Findings Not Repeated – State Compliance

Finding # 05 – 15 Inaccurate Completion of Agency Fee Imposition

The Authority did not properly complete the Agency Fee Imposition Report.

During our detailed testing, we noted the Agency Fee Imposition Report was submitted late; differences in fee amounts between the report and Trial Balance; and certain fees in the General Ledger were not included in the report. (Finding Code No. 04-10)

During the current year examination we noted that the Agency Fee Imposition Report was submitted on August 1, 2005, and fees from the Authority's Schedule of Revenues agreed to the Deposit Summary on the Agency Fee Imposition Report.

Finding # 05 – 16 Lack of Adequate Time Reporting Documentation

The Authority did not maintain adequate time sheets of time worked by employees as required by the State Officials and Employees Ethics Act.

The Authority did not maintain a positive timekeeping system for its employees, officers, or Director of time spent on official state business in quarterly hour increments. (Finding Code No. 04-11)

From our testing of the personnel files, we noted that each file contained a time sheet for time worked by the employee to the nearest quarter hour spent on official state business.

Finding # 05 – 17 Untimely and Inadequate Review of Monthly Reconciliations

The Authority did not perform adequate review and approval procedures on monthly reconciliations.

During our compliance examination, we noted that a reconciliation between the Comptroller's Monthly Revenue Status Report (SB04) and the Authority records was not performed on a monthly basis. The monthly reconciliations of the treasury held funds were not prepared until November 2004, in preparation for the financial statement audit. In addition, the proper supervisory personnel did not review and approve 12 out of 26 (46%) bank reconciliations selected. (Finding Code No. 04-12)

The Authority reviewed its process for conducting and reviewing reconciliations. During our testing of revenue and receipts we noted the Authority performed monthly reconciliations of treasury held cash receipts in a timely manner and documented its review and supervisory approval of bank reconciliations.

Prior Findings Not Repeated – State Compliance

Finding # 05 – 18 Unreported Assignment of State Vehicles

The Authority had not reported to the Department of Central Management Services (DCMS) to whom the State vehicles are assigned.

The Authority had two (2) vehicles assigned to its Springfield Location. (Finding Code No. 04-13)

We noted that the Authority reported the required information to DCMS on March 3, 2005. As of May 17, 2005 both vehicles were transferred to DCMS.

Finding # 05 – 19 Incomplete Accounting for Capital Assets

The Authority did not properly account for capital assets.

Total capital assets of the Authority were $346,140 at June 30, 2004 stated at historical cost. We noted that the Authority did not perform a reconciliation of the capital assets of the prior five bonding authorities that were assets contributed to the new Illinois Finance Authority. In addition, capital asset additions and disposals were not properly recorded in the general ledger system or the schedule of capital assets. There were also additional asset disposals found during the audit that were not accounted for by the Authority. (Finding Code No. 04-14)

During our testing of capital assets we noted that the Authority implemented a system to track capital assets, including capital asset additions and disposals, and record them in the comprehensive accounting system.

Finding #05 – 20 Deposits Not Made Timely

The Authority failed to timely deposit cash receipts. (Finding Code No. 04 – 09)

During our detailed testing of cash receipts, we noted that the Authority had improved its controls over the supporting documentation and the recording of cash receipts as reported in the prior year's finding.

Supplementary Information for State Compliance Purposes

Summary

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

Fiscal Schedules and Analysis
- Schedule of Expenditures of Federal Awards
- Notes to Schedule of Expenditures of Federal Awards
- Schedule of Appropriations, Expenditures and Lapsed Balances
- Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
- Comparative Revenue and Expense Analysis
- Schedule of Changes in State Property
- Reconciliation of Cash Receipts to Deposits Remitted to the State Comptroller
- Analysis of Significant Variations in Expenses
- Analysis of Significant Variations in Revenues
- Analysis of Significant Lapse Period Spending
- Analysis of Significant Account Balances
- Analysis of Accounts Receivable, Loans Receivable and Fees Receivable
- Schedule of Cash Funds and Depositories
- Schedule of Investments
- Schedule of Contracts
- Schedule of Conduit Debt

Analysis of Operations
- Authority Functions and Planning Program
- Average Number of Employees
- Ten-Year Schedule of Jobs Created or Retained by Loans, Revenue Bonds, and Investments Made by the Authority (Unaudited)
- Summary of Agriculture and Fire Truck Loan Programs:
  - Agricultural Development Bonds
  - State Guarantee Program for Restructuring Agricultural Debt
  - Farmer and Agri-Business Loan Guarantee Program
  - Young Farmer Loan Guarantee Program
  - Specialized Livestock Loan Guarantee Program
  - Interest Buy-Back Program
  - Fire Truck Revolving Loan Program
- Historical Summary of Agricultural Loans Issued by Program by County (Unaudited)
- Service Efforts and Accomplishments (Unaudited)

The auditors' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, except for that portion marked "unaudited," on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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Compliance Examination
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

Federal Grant / Program Title	Federal CFDA Number	Project Number	Program or Award Amount	Grant Proceeds	Program Loans Outstanding	Federal Portion of Interest / Other Income	Expenditures
U.S. Department of Commerce:							
Commerce and Economic Opportunity:							
Economic Adjustment Assistance							
Grant (Title IX)	11.011	06-19-01916	$ 424,000	$ -	$ 91,484	$ -	$ -
U.S. Department of Agriculture:							
Section 538 Rural Rental							
Housing Guaranteed Loans	10.438	-	1,500,000	-	257,358	16,606	-
Total			$ 1,924,000	$ -	$ 348,842	$ 16,606	$ -

See Notes to Schedule of Expenditures of Federal Awards.

Notes to Schedule of Expenditures of Federal Awards

Note 1 Organization

The Illinois Finance Authority (the Authority) is a body politic and corporate created July 17, 2003 by Public Act 93-205, effective January 1, 2004. Public Act 93-205 consolidated seven of the State's existing finance authorities into the Authority. The Authority succeeded to the rights and duties of the existing finance authorities as of January 1, 2004. Public Act 93-205 also repealed existing finance authorities' authorizing legislation. The mission of the Authority is statutorily defined as follows (20 ILCS 3501/801 et seq.):

The mission of the Illinois Finance Authority is to foster economic development to the public and private institutions that create and retain jobs, and improve the quality of life in Illinois by providing access to capital.

The Authority sponsors a variety of lending programs including direct lending and direct lending participation loans. The Authority also makes loans through its two federal programs, the Economic Development Administration (E.D.A.) Title IX Revolving Loan Program and the Rural Development Revolving Loan Program.

The Schedule of Expenditures of Federal Awards includes federal programs related to the following agencies:

U.S. Department of Commerce
U.S. Department of Agriculture

Note 2 Summary of Significant Accounting Policies

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of measurements made, regardless of the measurement focus applied.

The Schedule of Expenditures of Federal Awards is prepared using the accrual basis of accounting. Under the accrual basis of accounting, expenditures are recognized when incurred.

Terms of Agreements

The E.D.A. Title IX Revolving Loan Program

The E.D.A. Title IX Restricted Revolving Loan Program provides low-cost supplemental financing to manufacturing companies located in areas declared eligible for Title IX assistance by the E.D.A. Loans under this program are up to $100,000 for small and mid-sized manufacturers, and carry a fixed interest rate of 7.5% with maturity dates up to ten years. Total loans outstanding as of June 30, 2005 were $91,484. The E.D.A. Title IX Restricted Revolving loans are fully reserved.

Notes to Schedule of Expenditures of Federal Awards (Continued)

Note 2 Summary of Significant Accounting Policies (Continued)

The Rural Development Revolving Loan Program

The Rural Development Revolving Loan Program participates with the Rural Development Administration's (the former Farmers Home Administrations') Intermediary Re-lending Program to provide loans to business facilities and community development projects in rural areas for land acquisitions, facility construction and renovation, and machinery and equipment purchases. The Authority will contribute up to 75% or $150,000 of fixed asset costs at a 6% interest rate with maturity dates up to ten years. Total loans outstanding as of June 30, 2005 were $257,358.

Schedule of Appropriations, Expenditures and Lapsed Balances
Appropriations for Fiscal Year 2005

P.A. 93-0842	Appropriation (Net After Transfers)	Expenditures Through 06/30/05	Lapse Period Expenditures 07/01/05 to 08/31/05	Total Expenditures	Balances Lapsed
Appropriated Funds					
0001 - General Revenue Fund					
Interest Buy-Back Program	$ 240,000	$ 27,472	$ -	$ 27,472	$ 212,528
0572 - Fire Truck Revolving Loan Fund					
Loans to Fire Departments	10,000,000	5,067,943		5,067,943	4,932,057
0971 - Build Illinois Bond Fund					
Transfers to Fire Truck Revolving Loan Fund	10,000,000	6,200,000		6,200,000	3,800,000
Total Fiscal Year 2005	$ 20,240,000	$11,295,415	$ -	$11,295,415	$ 8,944,585

Note: Appropriations, expenditures and lapsed balances were obtained from Authority records and have been reconciled to records at the State Comptroller.

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Compliance Examination
For the Year Ended June 30, 2005

Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
Years Ended June 30, 2005 and 2004

	2005 Public Act 93-0842	2004 Public Act 93-94 and 93-587
0001 - General Revenue Fund		
Appropriations (Net After Trnasfers)	$ 240,000	$ 211,909
Expenditures		
Interest Buy Back Program	27,472	117,467
Total Expenditures	27,472	117,467
Lapsed Balances	$ 212,528	$ 94,442
0572 - Fire Truck Revolving Loan Fund		
Appropriations (Net After Transfers)	$ 10,000,000	$ 10,000,000
Expenditures		
Loans to Fire Departments	5,067,943	-
Total Expenditures	5,067,943	-
Lapsed Balances	$ 4,932,057	$ 10,000,000

Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
Years Ended June 30, 2005 and 2004 (Continued)

	2005 Public Act 93-0842	2004 Public Act 93-94 and 93-587
0971 - Build Illinois Bond Fund		
Appropriations (Net After Transfers)	$ 10,000,000	$ 10,000,000
Expenditures		
Transfer to Fire Truck Loan Revolving Fund	6,200,000	-
Total Expenditures	6,200,000	-
Lapsed Balances	$ 3,800,000	$ 10,000,000
All Funds		
Appropriations (Net After Transfers)	$ 20,240,000	$ 20,211,909
Total Expenditures	11,295,415	117,467
Lapsed Balances	$ 8,944,585	$ 20,094,442

Note: The Aurhority did not make efficiency initiative paments during the fiscal year ended 2005.

Comparative Revenue and Expense Analysis

	2005	2004*	Increase (Decrease)	% Variance
Revenues				
Interest on loans	$ 3,084,364	$ 3,273,236	$ (188,872)	(6)
Application fees	80,330	223,614	(143,284)	(64)
Annual fees	1,747,670	1,434,330	313,340	22
Administrative service fees	4,977,492	3,364,292	1,613,200	48
Bad debt recoveries	7,616	245,266	(237,650)	(97)
Miscellaneous	209,123	206,888	2,235	1
Appropriations from State of Illinois	6,227,472	234,934	5,992,538	2,551
Interest and investment income	1,732,318	1,420,540	311,778	22
Total Revenues	18,066,385	10,403,100	7,663,285	74
Expenses				
Employee related expenses	3,169,979	2,306,360	$ 863,619	37
Professional services	1,173,012	1,996,756	(823,744)	(41)
Depreciation	18,426	10,732	7,694	72
Occupancy costs	435,125	473,984	(38,859)	(8)
General and administrative	485,295	1,512,956	(1,027,661)	(68)
Loan loss provision	241,137	-	241,137	100
Interest expense	3,089,751	3,354,256	(264,505)	(8)
Net depreciation in fair value of investments	689,419	985,306	(295,887)	(30)
Interest buy-back expense	27,472	234,934	(207,462)	(88)
Total Expenses	9,329,616	10,875,284	(1,545,668)	(14)
Excess (Deficiency) of Revenues over Expenses	$ 8,736,769	$ (472,184)	$ 9,208,953	(1,950)

**The expenses for the six months ended June 30, 2004 were annualized for comparison purpose.*

Schedule of Changes in State Property

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Cost				
Capital Assets Being Depreciated:				
Leasehold Improvements	$ 2,000	$ -	$ -	$ 2,000
Furniture and Equipment	225,849	14,446	(60,775)	179,520
Automotive Equipment	28,987	-	(28,987)	-
Computers and Software	89,304	22,703	(11,206)	100,801
Total Capital Assets Being Depreciated	346,140	37,149	(100,968)	282,321
Accumulated Depreciation				
Leasehold Improvements	2,000	-	-	2,000
Furniture and Equipment	198,977	9,471	(60,775)	147,673
Automotive Equipment	28,987	-	(28,987)	-
Computers and Software	63,700	8,955	(11,206)	61,449
Total Accumulated Depreciation	293,664	18,426	(100,968)	211,122
Capital Assets, Net of Accumulated Depreciation	$ 52,476	$ 18,723	$ -	$ 71,199

Authority's records were reconciled to the records maintained by the Comptroller of the State of Illinois.

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Compliance Examination
For the Year Ended June 30, 2005

Reconciliation of Cash Receipts to Deposits Remitted to the State Comptroller

Illinois Farmer and Agri-Business Loan Guarantee Fund #205

Repayment of loan guarantees	$	45,751
Cash Receipts per Agency Records		45,751
Add cash in transit, beginning of period		-
Less cash in transit, end of period		-
Deposits Remitted to the Comptroller	$	45,751

Fire Truck Revolving Loan Fund #572

Transfer from Builid Illinois Bond Fund	$	6,200,000
Cash Receipts per Agency Records		6,200,000
Add cash in transit, beginning of period		-
Less cash in transit, end of period		-
Deposits Remitted to the Comptroller	$	6,200,000

Illinois Agricultural Loan Guarantee Fund #994

Repayment of loan guarantees	$	8,666
Cash Receipts per Agency Records		8,666
Add cash in transit, beginning of period		-
Less cash in transit, end of period		-
Deposits Remitted to the Comptroller	$	8,666

Analysis of Significant Variations in Expenses

A comparative schedule of significant variations in expenses for the year ended June 30, 2005 and annualized six-month ended June 30, 2004 are shown below:

	June 30, 2005	June 30, 2004	Increase (Decrease)	% Variance	Explanation of Significant Variations (Variance of 20% and $100,000 or more)
Employee related expenses	3,169,979	2,306,360	863,619	37	Additional staff added in our Chicago and Springfield Offices, and the accrual for the Incentive Bonus.
Professional services	1,173,012	1,996,756	(823,744)	(41)	Outside service providers were used for several months after the merger until full time staff was employed. Predecessor agencies had final audits which IFA paid for.
General and administrative	485,295	1,512,956	(1,027,661)	(68)	Decrease of write-offs for bad debts related to the Guarantee Loan Programs
Loan loss provision	241,137	-	241,137	100	Increase in our Participation Loans Portfolio and write off of bad loans.
Net depreciation in fair value of inves	689,419	985,306	(295,887)	(30)	Net of VC investments and change in market valuations.
Interest buy-back expense	27,472	234,934	(207,462)	(88)	Program was terminated in fall 2004.

Analysis of Significant Variations in Revenues

A comparative schedule of significant variations in revenues for the year ended June 30, 2005 and annualized six-month ended June 30, 2004 are shown below:

	June 30, 2005	June 30, 2004	Increase (Decrease)	% Variance	Explanation of Significant Variations (Variance of 20% and $100,000 or more)
Application fees	80,330	223,614	(143,284)	(64)	Due to a coding error in 2004, service fees were classified as application or administrative fees.
Annual fees	1,747,670	1,434,330	313,340	22	Predecessor Agency had abated annual fees on their bonds thru June 30, 2004
Administrative service fees	4,977,492	3,364,292	1,613,200	48	There were no closing fees in first 2 months of IFA's operation and as noted above service fees were coded to application fees in 2004.
Bad Debt recoveries	7,616	245,266	(237,650)	(97)	Prior years allowance was adjusted positively due to improvement in economic conditions.
Appropriations from State of Illinois	6,227,472	234,934	5,992,538	100	Due to passage of new legislation, the authority established the Fire Truck Revolving Loan program which was funded from an appropriation received from the State of Illinois.
Interest and investment income	1,732,318	1,420,540	311,778	22	Increase is due to increase in interest rates and increase in balances available to invest.

Analysis of Significant Lapse Period Spending

There was no significant lapse period spending (20% or more of the total expenditures) made by the Authority during the examination period.

Analysis of Significant Account Balances

Following are the account balances with significant change (greater than $2 million) between June 30, 2004 and June 30, 2005.

	June 30, 2005	June 30 2004	Increase (Decrease)	% Variance	Analysis of Significant Change
Assets					
Cash and cash equivalents	$ 50,410,819	$ 43,077,662	$ 7,333,157	17	Increase due to maturity of Investments which were reinvested in Illinois Funds.
Investments	17,292,491	25,592,642	(8,300,151)	(32)	Upon maturity investments were deposited in Illinois Funds. Also available funds were loaned to Municipalities in furtherance of the Authority's assistance programs.
Receivables, net	80,012,862	72,642,352	7,370,510	10	Increase due to additional loans to municipalities as stated above and the addition of the Fire Truck Revolving Loan Program.
Liabilities					
Long-term debt	64,677,209	67,226,074	(2,548,865)	(4)	Bonds redeem per sinking fund requirements.

Analysis of Accounts Receivable

The Authority's past-due accounts receivable at June 30, 2005 totaled $236,482. An aging of the past-due accounts receivable by number of days is as follows:

1 - 30 Days	31 - 90 Days	91 - 180 Days	Over 180 Days
$236,482	$0	$0	$ -

The Authority used private collection services to collect delinquent receivable balances.

Analysis of Loans Receivable

The Authority's past-due loans receivable at June 30, 2005 totaled $1,514,311. An aging of the past-due loans receivable by number of days is as follows:

1 - 30 Days	31 - 90 Days	91 - 180 Days	Over 180 Days
$7,560		$ -	$1,506,751

The Authority used private collection services to collect delinquent receivable balances.

Analysis of Fees Receivable

The Authority's past-due fees receivable at June 30, 2005 totaled $223,508. An aging of the past-due fees receivable by number of days is as follows:

1 - 30 Days	31 - 90 Days	91 - 180 Days	Over 180 Days
$0	$0	$0	$223,508

The Authority used private collection services to collect delinquent receivable balances.

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Compliance Examination
For the Year Ended June 30, 2005

Schedule of Cash Funds and Depositories

General Operating Fund:	
Banterra Bank of Marion, Illinois - Money Market	$ 221,950
LaSalle Bank in Chicago, Illinois	191,657
Petty Cash	400
Morgan Stanley – Money Market	69,282
The Illinois Funds – Money Market	11,772,489
The Illinois Funds – Prime Fund	2,214,217
Banterra Bank of Marion, Illinois – Money Market	43,135
Industrial Revenue Bond Insurance Fund:	
Banterra Bank of Marion, Illinois – Money Market	2,801,815
JP Morgan in Chicago, Illinois - Prime Money Market Fund	1,606,250
The Illinois Funds – Money Market	6,855,237
Credit Enhancement Fund:	
JP Morgan in Chicago, Illinois – Money Market	42,534
JP Morgan in Chicago, Illinois – Money Market	200,285
ABN AMRO Government Money Market	600,000
CEFCU	500,000
Federated Government Obligations - Tax Managed	58,500
E.D.A. Title IX Restricted Revolving Loan Fund:	
Banterra Bank of Marion, Illinois – Savings	713,019
Rural Development Revolving Loan Fund:	
Banterra Bank of Marion, Illinois – Money Market	2,125,631
Illinois Rural Bond Bank General Fund Trust Fund	
Illinois Treasurer's - Cash	35
The Illinois Funds – Money Market	414,604

Schedule of Cash Funds and Depositories (Continued)

Illinois Agricultural Loan Guarantee Fund:	
Illinois Treasurer's - Cash	$ 10,081,275
Bond Fund:	
US Bank in Minneapolis, Minnesota - Money Market	18,576
First American Treasury Obligations Fund	450,691
Short-Term Investments Treasury	11,617
Illinois Farmer Agribusiness Loan Guarantee Fund:	
Illinois Treasurer's – Cash	7,419,530
Illinois Housing Partnership Program Fund:	
The Illinois Funds – Money Market	823,794
IRBB Special Reserve Fund:	
The Illinois Funds – Prime Fund	4,559
The Illinois Funds – Money Market	5,708
Fire Truck Revolving Loan Fund	
Illinois Treasurer's – Cash	1,164,029
	$ 50,410,819

Schedule of Investments

Description	Type	Interest Rate	Maturity Date	Recorded Value June 30, 2005
General Operating Fund:				
LaSalle Bank	Certificate of Deposit	2.08	06/22/2006	$ 85,000
Morgan Stanley – Government Securities	Pooled Investment			1,282,669
Peoples National Bank of Pana	Certificate of Deposit	1.75%	07/08/2005	1,000,000
First Midwest Bank	Certificate of Deposit	6.25%	07/24/2005	100,000
Princeville State Bank	Certificate of Deposit	6.25%	07/24/2005	100,000
Community State Bank	Certificate of Deposit	4.16%	08/09/2005	100,000
First State Bank of Campbell Hill	Certificate of Deposit	4.25%	08/09/2005	100,000
Peoples National Bank	Certificate of Deposit	5.26%	09/06/2006	100,000
Warren-Boynton State Bank	Certificate of Deposit	5.00%	08/09/2007	100,000
Corn Belt Bank	Certificate of Deposit	5.00%	08/09/2007	100,000
Chapin State Bank	Certificate of Deposit	4.25%	03/14/2008	100,000
BankOrion	Certificate of Deposit	4.12%	03/14/2008	100,000
State Bank of Lincoln	Certificate of Deposit	4.01%	03/14/2008	100,000
Wemple State Bank	Certificate of Deposit	4.00%	03/14/2008	100,000
Venture Investment Fund:				
AccelChip	Venture Capital			272,752
Champaign-Urbana Fund	Venture Capital			181,000
Clearstack	Venture Capital			450,000
Firefly Energy, Inc.	Venture Capital			650,000
Forest One	Venture Capital			160,000
Harmonic Vision	Venture Capital			261,000

Schedule of Investments (Continued)

Description	Type	Interest Rate	Maturity Date	Recorded Value June 30, 2005
Illinois Arch Fund Partnership	Venture Capital			$ 152,049
Illinois Arch II Parallel Fund Limited Partnership	Venture Capital			224,086
Influx, Inc. (now Protez Pharmaceuticals)	Venture Capital			150,000
Metalconforming Controls	Venture Capital			500,000
Mobitrac	Venture Capital			265,644
Moire, Inc.	Venture Capital			300,000
Nephrx	Venture Capital			110,000
Neuronautics	Venture Capital			300,000
Open Channel Software	Venture Capital			250,000
Smart Signal	Venture Capital			293,848
Stonewater Software	Venture Capital			4,758
Video Home Tour	Venture Capital			250,000
Zuchem, Inc.	Venture Capital			543,100
Bond Fund:				
US Bank in Minneapolis, Minnesota	Pooled Investment			8,506,585
				$ 17,292,491

Schedule of Contracts

Contractor	Services Provided	Contract Amount	Total Expenses Incurred
ADP Total Source	Payroll and HR	Payroll Services	$ 178,496
Anthes, Pruyn & Associates	Accounting Services	$65 per hour	74,205
Bank One	Bond Reporting Service	Not to exceed $35,000	-
Bell Boyd & Lloyd	Legal	Not to exceed $20,000	-
Bert Gisi	Clerical Services	$18.00 per hour	-
Blackwell Consulting	Computer Consulting	$150.00 per hour	1,350
Burke Burns & Pinelli	Legal	$225.00 per hour	-
Cadmium Design	Professional - Marketing	Not to exceed $20,000	-
CBIZ Information Systems	Loan & Bond System	$185.00 per hour	37,306
CEC Communications	Carbondale Internet Access	$225.00 per month	-
Crowe Chizek	Professional - Accounting	Not to exceed $4,500	-
Debra Pigg	Professional - Accounting	Not to exceed $10,000	1,842
Distant Horizon	Website Services	Not to exceed $20,000	7,406
DLS Internet Services	Chicago Internet Access	$799.00 per month	7,372
Dykema Gossett Law Offices	Legal	$330.00 per hour	11,271
Envision Design	Professional - Marketing	Not to exceed $20,000	8,800
Gannarelli Graphics	Professional - Marketing	Not to exceed $20,000	4,400
Gordon & Glickson LLC	Legal	$380.00 per hour	21,263
Gray Hunter Stenn LLP	Professional - CFO	Not to exceed $10,000	6,158
Harper Graphics	Professional - Marketing	Not to exceed $20,000	19,934
Howard Kenner Governmental Consulting	Professional - Consulting	Not to exceed $50,000	-
Kirkpatrick, Pettis, Smith, Polian Inc.	Professional - Finanical Advisory	$8,000.00 per month	146,675
Kristi Koch	Professional - Consulting	$3,950.00 per month	31,600
Livingstone Communications	Professional - Marketing	Not to exceed $20,000	20,393
Mayer, Brown, Rowe & Maw LLP	Legal	Based on transaction	5,986
Miller, Cooper, & CO. LTD	Professional - Accounting	Not to exceed $20,000	9,881
Nick Kyros	Sales Managers	$3,750.00 semi montlhy	60,989
Nimlok Chicago	Professional - Marketing	Not to exceed $20,000	2,780
Perkins Coie LLP	Legal	$330.00 per hour	-
Rentokil	Plant Maintenance	$200.00 - $450.00 month	-
Rider Dickerson, Inc.	Professional - Marketing	Not to exceed $20,000	28,304
Robert W. Baird	Professional - Credit Review	$350.00 per credit review	3,850
Schiff Hardin & Waite	Legal Services	$340-$385 per hour	256,960
Sheldon Keyser	Professional - Consulting	Not to exceed $10,000	6,884
Shields Consulting, Inc	Professional - Accounting	Not to exceed $10,000	4,500
Shorenstien Realty Services L.P.	Office Rent - Chicago	$21,940.00 per month + services	165,489
Southern Illinois University	Office Rent - Carbondale	$337.50 per month + services	4,388
Sterling Network	Professional - Network	$150.00 per hour	10,217
The Drucker Group	Professional - Marketing	Not to exceed $20,000	-
The Heartland Partnership	Office Rent - Peoria	$333 per month + services	5,948
Wagner & Associates, Inc	Sales process development	$475.00 Daily Rate	-
Wells Fargo	Professional - Trustee	Not to exceed $77,025	-
Wiston Company	Office Rent - Springfield	$2,100.00 per month+utilities	15,760
		Total	$ 1,160,407

Schedule of Conduit Debt
(In Thousands)

		Principal Outstanding	Number of Issues Outstanding
Illinois Finance Authority			
Revenue Bonds	$	3,577,758	79
Notes		22,561	7
Total Illinois Finance Authority		3,600,319	
Predecessor Authorities			
Illinois Development Finance Authority			
Total 501(c)3 Not-for-Profit Bonds and Leases		2,755,733	162
Total Environmental Bonds		1,353,675	35
Total Clean Water State Revolving Fund		129,795	1
Total Industrial Revenue Bonds		1,004,053	153
Total Infrastructure Bonds		871,948	47
Total Housing Bonds		269,162	26
Total Leases, Notes and Certificates of Participation		36,575	6
Total Distressed Bonds		14,045	2
Total Illinois Development Finance Authority		6,434,986	
Illinois Health Facilities Authority		7,371,194	182
Illinois Educational Facilities Authority		2,839,076	78
Illinois Farm Development Authority		86,663	36
Illinois Rural Bond Bank		15,845	4
Total Predecessor Authorities		16,747,764	
Grand Total Illinois Finance Authority	$	20,348,083	818

Authority Functions and Planning Program

The Authority maintains offices at 180 North Stetson Avenue, Suite 2555, Chicago, Illinois 60601; 217 E. Monroe Street, Suite 202, Springfield, Illinois 62701; 150 E. Pleasant Hill Road, Carbondale, Illinois 62901; and 124 SW Adams Street, Suite 300, Peoria, Illinois 61602. The Authority's Board consists of 14 members (below) and Ms. Jill Rendleman, Acting Executive Director.

Following are the Members of the Board of Directors:

1. David C. Gustman, Chairman
2. Demetris A. Giannoulias
3. Michael Goetz
4. Dr. Roger D. Herrin
5. Edward H. Leonard Sr.
6. Martin Nesbitt
7. Terance M. O'Brien
8. Andrew W. Rice
9. Joseph P. Valenti
10. James Fuentes
11. Magda Boyles
12. Bradley A. Zeller
13. Juan B. Rivera
14. Ronald E. DeNard

Functions

The Authority was created by the Illinois Finance Authority Act, (20 ILCS 3501 et. seq.) effective January 1, 2004. Pursuant to the Act, the Authority's objectives are to:

1. Retain jobs in Illinois by assisting existing businesses considering relocation or plant expansion in obtaining low cost financing. This will be accomplished by providing the ability to respond to business situations that might result in job loss within Illinois on a specially tailored basis as required. Although the situations cannot be accurately predicted, it is the objective of the Authority to make its staff and programs available as individual situations develop.

2. Assist in the creation of new jobs in Illinois by assisting new emerging or expanding businesses in securing project financing. In order to meet this objective, the Authority utilized three direct loan programs and three industrial revenue bond programs.

3. Assist municipalities in their financing of road, water and sewer projects necessary for economic development

4. Induce enterprises to remain, expand, and locate in Illinois by helping to provide seed and investment capital.

5. Facilitate employee acquisition of individual and manufacturing facilities about to close or relocate outside Illinois.

6. Provide zero-interest loans to municipalities for rehabilitation and improvement of affordable multi-unit housing for low and moderate-income residents.

Authority Functions and Planning Program (Continued)

7. Improve economic conditions of severely depressed municipalities by making grants to support housing, industrial, and commercial projects.

8. Expand their programs to monitor State bonding activity, initiate favorable legislation at the State and federal level, and communicate information to help inform the public.

9. Devote resources to help not-for-profit organizations address housing and service needs of the mentally ill and disabled.

10. Assist in providing low cost capital to for-profit and not-for-profit organizations for the financing of day care facilities.

11. Work with the General Assembly, the Governor, and other agencies to develop an integrated plan for waste management and to develop a funding mechanism to assist communities in financing of day care facilities.

12. Assist women, low income, and minority entrepreneurs, and business owners, and other such individuals possessing the capability to operate successful business concerns and to assist small business concerns in those areas suffering from lack of credit due to economic downturn.

On May 31, 2003 the 93rd General Assembly passed Senate Bill 1075 which became Public Act 93-0205 on July 17, 2003. This act repeals the enabling legislation of the Illinois Health Facilities Authority, the Illinois Educational Facilities Authority, the Illinois Development Finance Authority, the Illinois Rural Bond Bank, and the Illinois Farm Development Authority, effective January 1, 2004 and created the Illinois Finance Authority. The activities of each of the bonding authorities named above were transferred to the Illinois Finance Authority on January 1, 2004.

Planning Program

The policy of the Authority is to offer the broadest possible services to the borrower within the State consistent with the Authority's legislation and resources. This commitment is reflected by using the direct placement of the Authority bonds and notes and short-term revenue bonds, by the issuance of tax-exempt commercial paper, through the public sale of tax-exempt long-term bonds, and through the loan participation program.

Auditor's Assessment of Agency's Planning Program

The Authority's planning program appeared adequate.

Average Number of Employees

The following is a summary of the average number of employees employed at the Authority for the year ended June 30, 2005:

	June 30, 2005	June 30, 2004
Director	1	1
Administrative Assistant	6	1
Controller	-	1
Chief Financial Officer	1	-
Client Service Representative	15	11
Counsel	-	1
Paralegal	-	-
Secretaries	-	1
Receptionist	-	1
Accountant	2	2
Operations Manager	1	-
Human Resource Manager	-	-
MIS Administrator	1	1
Public Information/ Marketing Administrator	1	-
Program Executive	1	1
Total average number of employees	29	21

Ten-Year Schedule of Jobs Created or Retained by Loans, Revenue Bonds and Investments Made by the Authority (Unaudited)

Fiscal Year	Healthcare Bond Amounts Closed	Jobs Created and/or Retained	Educational Bond Amounts Closed	Jobs Created and/or Retained
2005	$ 937,800,000	229	$ 842,460,000	577
2004	1,819,401,340	790	563,445,000	802
2003	-	-	-	-
2002	-	-	-	-
2001	-	-	-	-
2000	-	-	-	-
1999	-	-	-	-
1998	-	-	-	-
1997	-	-	-	-
1996	-	-	-	-

Note: Information for the former Illinois Health Facilities Authority and the Illinois Educational Facilities Authority from 1996 through 2003 is not available.

Ten-Year Schedule of Jobs Created or Retained by Loans, Revenue Bonds and Investments Made by the Authority (Unaudited)

Fiscal Year	Direct/ Participation Loan Amounts Closed	Jobs Created and/or Retained	Industrial Revenue Bond Amounts Closed	Jobs Created and/or Retained
2005	$ 3,670,727	133	$ 53,218,000	224
2004	1,224,878	82	437,339,500	799
2003	1,342,383	55	92,555,000	170
2002	1,902,658	180	253,645,000	665
2001	2,663,378	332	71,535,000	861
2000	1,928,833	222	59,814,990	837
1999	1,810,157	109	107,010,000	1,123
1998	3,046,549	311	128,057,000	859
1997	2,197,740	246	131,790,000	834
1996	641,000	203	187,129,000	1,122

Note: Information from 1996 through 2003 were obtained from the former Illinois Development Finance Authority, while 2004 information represents July 1, 2003 through December 31, 2003 obtained from the former Illinois Development Finance Authority and January 1, 2004 through June 30, 2004 provided by Illinois Finance Authority.

Ten-Year Schedule of Jobs Created or Retained by Loans, Revenue Bonds and Investments Made by the Authority (Unaudited)

Fiscal Year	FmHA & E.D.A. Title IX Amounts Closed	Jobs Created and/or Retained	Investments in Venture Capital Companies	Jobs Created and/or Retained	Total Construction Jobs
2005	$ -	-	$ 841,697	52	3,946
2004	-	-	2,124,098	28	8,147
2003	-	-	390,100	20	826
2002	-	-	1,934,270	85	579
2001	220,000	22	2,951,000	474	1,880
2000	-	-	1,150,000	44	3,528
1999	300,000	33	1,217,380	46	3,063
1998	300,000	12	1,386,000	40	-
1997	930,700	93	150,000	2	-
1996	100,000	10	-	-	-

Note: Information from 1996 through 2003 were obtained from the former Illinois Development Finance Authority, while 2004 information represents July 1, 2003 through December 31, 2003 obtained from the former Illinois Development Finance Authority and January 1, 2004 through June 30, 2004 provided by Illinois Finance Authority.

Summary of Agriculture and Fire Truck Loan Programs

I. Agricultural Development Bonds

Overview:

The Authority had three Agricultural Development Bond Programs in operation, the Beginning Farmer Bond, Agriculture Manufacturing Bond and Beginning Farmer Contract Bond. Through these programs, individuals and businesses ("participants") were screened for eligibility. If they were found to qualify, the Authority, the participants, and the lenders (local banks) entered into loan agreements whereby the proceeds from the issuance of a tax exempt bond were loaned to the participant for prequalified expenditures.

The loan agreements delineated the rights and responsibilities of each of the parties. The banks were considered trustees and were responsible for the receipt of the bond proceeds, payment of qualified expenditures, payment of bond interest and principal and maintenance of necessary records. The Authority had no equity interest in any of the property or equipment, and it was not liable in any way for payment due to bond holders.

This program benefited the participants by allowing them to borrow money at tax-exempt rates, which were generally around 2% below taxable rates.

Interest Rates:

Because interest on the bonds was exempt from Federal income taxes, the interest rates were below the general market. To date, the rates charged ranged from 3.4% to 12%. Some of the bonds had variable rates, while others had fixed rates.

Revenues of the Program:

The Authority's Operating Fund received $100 for an application fee and at closing, a fee of one and one-half percent of the principal amount of the bond (net of application fee).

Bonds Issued:

A predecessor of the Authority began issuing bonds in December 1982. The following tables detail the bonds issued by purpose and by year.

Summary of Agriculture and Fire Truck Loan Programs (Continued)

I. Agricultural Development Bonds (Continued)

Bonds issued and outstanding by purpose as of June 30, 2005:

Purpose	Number	Amount	Percent of Total
Land and depreciable property	221	$26,122,125	9.9%
Farmland loans	1846	195,221,760	73.9%
New Equipment	484	15,379,768	5.8%
Used Equipment	91	2,460,490	0.9%
New improvements	179	10,558,830	4.0%
Used Improvements	2	46,000	0.0%
Breeding stock	42	971,650	0.4%
Soil conservation-permanent	28	584,763	0.2%
Agri-Business	79	10,386,203	3.9%
Tiling	52	1,549,276	0.6%
New no-till equipment	55	998,271	0.4%
	3079	264,279,136	100.0%
Principal payments to June 30, 2005		177,616,136	
Principal outstanding at June 30, 2005		86,663,000	

Bonds issued by year:

Fiscal Year Ended June 30*	Number	Amount
1983	322	$ 13,580,269
1984	620	32,518,257
1985	459	29,628,084
1986	221	18,414,717
1987	55	4,554,117
1988	69	6,212,934
1989	52	4,078,217
1990	75	7,939,779
1991	90	9,018,835
1992	96	9,594,370
1994	101	11,835,969
1995	81	8,236,393
1996	99	11,899,866
1997	108	14,262,251
1998	118	14,138,025
1999	78	9,284,274
2000	92	12,085,703
2001	98	11,756,702
2002	63	8,639,030
2003	83	12,428,828
2004	49	6,565,001
2005	50	7,607,515
	3079	$ 264,279,136

** - Information obtained from former Illinois Farm Development Authority except 2004 and 2005*

Summary of Agriculture and Fire Truck Loan Programs (Continued)

II. State Guarantee Program For Restructuring Agricultural Debt

Overview:

The Loan Guarantee Program was authorized by Legislation and passed in November 1985. It was designed to consolidate and spread out farmer's existing debt over a longer period of time at a reduced interest rate. This was accomplished by having the State of Illinois guarantee repayment of 85% of the amounts loaned under this program. Qualifications under the program dictated that a farmer must be credit-worthy, must have a debt-asset ration of between 40% and 65%, must have sufficient collateral to secure the State guarantee and must be a principal operator of a farm.

Loans were made through participating banks that were responsible for processing a farmer's application and for servicing the loan once it was approved by the Authority. These lenders were liable for the first 15% of loss on any loan. Loans could not exceed $500,000. Repayment schedules were tailored to suit the borrowers' collateral and financial position with a maximum of a thirty-year amortized payment schedule. The procedures for extending a loan were similar to the procedures for taking out a loan. Terms of the loan could be altered during the extension process. All extended loans must have been approved by the Authority's Board. Interest rates were adjusted annually and must have been less than the market rate of interest generally available to the borrower.

Amount of Loans:

During the year ended June 30, 2005, six (6) loans were approved totaling $2,303,390. New loan amounts ranged from $217,885 to $500,000 with the average being $384,000. Total outstanding loans at June 30, 2005, amounted to $50,968,283. There was a statutory limit of $160,000,000 for this guarantee program. A breakdown of loans issued by county immediately follows this section.

Revenues and Expenses of the Program:

The Authority's Operating Fund received $300 for an application fee and at closing, a fee of one-half percent of the principal amount of the bond (net of application fee). The Authority also received an annual fee of one-quarter percent on the outstanding principal amount of these loans.

The expenses incurred in the program were administrative costs that were paid out of the Authority's Operating Fund.

Benefits to the Participants and Estimated Costs to the State:

Projected benefits included lower interest rates on loans and a more readily available source of long-term financing. These benefits lowered operating costs to the farmer, as well as provided stability to his operations.

Summary of Agriculture and Fire Truck Loan Programs (Continued)

II. State Guarantee Program For Restructuring Agricultural Debt

Benefits to the Participants and Estimated Costs to the State (Continued):

Financial activities of this Fund are detailed in the Illinois Agricultural Loan Guarantee Fund. This program was funded by capital contributions from the General Revenue Fund and by transfers from the Farm Emergency Assistance Fund, totaling $14,063,009. Operating revenues and operating expenses were recorded in the Authority's Operating Fund.

III. Farmer and Agri-Business Loan Guarantee Program

Overview:

This Loan Guarantee Program was authorized by legislation passed in November 1985. Its guarantee was similar to the State Guarantee Program for Restructuring Agricultural Debt. Its target population was both agri-business and individual farmers. Its purpose was to encourage diversification and vertical integration of Illinois agriculture. The State issued an 85% guarantee for farmers/agri-business and lenders who met the qualifications of the program. Loans were made through participating banks that were responsible for processing a farmer's application and for servicing the loan once it was approved by the Authority. These lenders were liable for the first 15% of loss on any loan. There was no maximum loan amount for agri-business loans but loans per farmer could not exceed $500,000. Loans must have been repaid within fifteen years. Interest rates were adjusted annually and must have been less than the market rate of interest generally available to the borrower.

Amount of Loans:

During the year ended June 30, 2005, two (2) loans were approved totaling $943,000. The amount of loans outstanding as of June 30, 2005 was $8,168,116. A breakdown of loans issued by county immediately follows this section.

Revenues and Expenses of the Program:

The Authority's Operating Fund received $300 for an application fee and at closing, a fee of one-half percent of the principal amount of the loan (net of the application fee). The Authority also received an annual fee of one-quarter percent on the outstanding principal amount of these loans.

The program's administrative costs were paid out of the Authority's Operating Fund.

Benefits to the Participants and Estimated Costs to the State:

Benefits to the participants were the same as the Illinois Agricultural Loan Guarantee Program. Additionally, this program sought to diversify the Illinois farm economy.

Summary of Agriculture and Fire Truck Loan Programs (Continued)

III. Farmer and Agri-Business Loan Guarantee Program (Continued)

Enterprise Fund:

Financial activities of this Fund were accounted for in the Farmer and Agri-Business Loan Guarantee Fund. This program, the Young Farmer Loan Guarantee Program and the Specialized Livestock Loan Guarantee Program, were funded by an operating transfer from the Farm Emergency Assistance Fund totaling $8,110,000 during fiscal year 1987. These monies were to secure State guarantees issued under these three programs. Operating revenues and operating expenses were reduced in the Authority's Operating Fund.

IV. Young Farmer Loan Guarantee Program

Overview:

During fiscal year 1993 the Young Farmer Loan Guarantee Program was authorized by the Legislature.

The Young Farmer Loan Guarantee Program was a guarantee program designed to enhance credit availability for younger farmers who were purchasing capital assets. Loan funds could be used for new purchases of capital assets such as land, buildings, machinery, equipment, breeding livestock, soil and water conservation projects, etc. In some cases, the loan proceeds could be used to refinance existing debt as needed to improve lien positions.

All Young Farmer Loans Guarantee Program loans were made through conventional lenders. The Authority provided an 85% guarantee of principal and interest on the loan made to a qualified borrower by a qualified lender. The lender, in consideration for the 85% guarantee, agreed to charge an interest rate lower than conventional. This rate could be fixed or variable as agreed between the applicant and lender.

The applicant must have been able to provide sufficient collateral to adequately secure the Young Farmer Loan Guarantee Program loan. The maximum term for a Young Farmer Loan Guarantee Program loan was fifteen years. Loans collateralized by real estate could be amortized up to twenty-five years with a fifteen year balloon. Loans collateralized by depreciable property were amortized over a shorter period.

The eligible applicant must:

- Have been a resident of the State of Illinois
- Have been at least eighteen years of age
- Have been the principal operator of a farm who derived or would derive at least 50% of annual gross income from farming
- Have had a debt to asset ration of between 40% and 70% after purchase of the capital item
- Have had a net worth in excess of $10,000

The borrower must have provided collateral sufficient to have secured the loan and kept the loan collateral through its term. The borrower must have also demonstrated the ability to have adequately serviced the proposed debt.

Summary of Agriculture and Fire Truck Loan Programs (Continued)

IV. Young Farmer Loan Guarantee Program (Continued)

The maximum loan per applicant was $500,000. An eligible applicant could use the program more than once provided that the totals of the original loan amounts did not exceed $500,000. Any losses incurred under the State guarantees were paid from the Illinois Farmer and Agri-Business Loan Guarantee Fund.

Amount of Loans:

During the year ended June 30, 2005, no loans were approved. The amount of loans outstanding as of June 30, 2005 was $3,576,822. A breakdown of loans issued by county immediately follows this section.

Revenues and Expenses of the Program:

A nonrefundable application fee of $300 must have been paid to the Authority at the time of application. The applicant paid a fee of 1% of the loan amount at closing. This closing fee was the net of the $300 application fee; however, the minimum fee was $300. The Authority received ¾%and the lender received ¼%. The lender could charge no additional fees or points other than the fee received at closing. The applicant was liable for normal and customary attorney's fees abstracting costs, filing fees, appraisal fees and other costs of the loan. The lender agreed to pay the Authority an annual administrative fee equal to ¼%of the outstanding balance of the Young Farmer Loan Guarantee Program loan on the payment date. The fee was not passed on to the borrower.

The program's administrative costs were paid out of the Authority's Operating Fund.

Benefits to the Participants and Estimated Costs to the State:

Benefits included lower interest rates on loans and a more readily available source of long term financing. These benefits lowered costs to the farmer, as well as provided stability to his operations.

V. Specialized Livestock Loan Guarantee Program

Overview:

This Loan Guarantee Program was authorized by legislation passed in July 1996 and is similar to the Farmers and Agri-Business Loan Guarantee Program. Its target population was both agri-business and individual farmers and was designed to encourage the development of the Illinois livestock industry, by spreading out over a longer term at a reduced interest rate. The State issued an 85% guarantee for farmers/agri-business and lenders who met the qualifications of the program. Loans were made through participating banks that were responsible for processing a farmer's application and for servicing the loan once it was approved by the Authority. These lenders were liable for the first 15% of loss on any loan. Loans could not exceed a maximum of $1,000,000 per farmer. Loans must have been repaid within fifteen years. Interest rates were adjusted annually and must have been less than the market rate of interest generally available to the borrower.

Any losses incurred under State guarantees were paid from the Illinois Farmer and Agri-Business Loan Guarantee Fund.

Summary of Agriculture and Fire Truck Loan Programs (Continued)

V. Specialized Livestock Loan Guarantee Program (Continued)

The total outstanding loan balance under the Young Farmer Loan Guarantee Program, Farmer and Agri-Business Loan Guarantee Program and the Specialized Livestock Loan Guarantee Program could not exceed $75 million. The total outstanding loan balance for these three programs at June 30, 2005 was $32,197,291.

Amount of Loans:

During the year ended June 30, 2005, six (6) loans were approved totaling $3,995,800. The amount of loans outstanding as of June 30, 2005 was $20,452,353. A breakdown of loans issued by county immediately follows this section.

Revenues and Expenses of the Program:

The Authority's Operating Fund received $300 for an application fee and at closing, a fee of ¾% of the principal amount of the loan (net of the application fee). The Authority also received an annual fee of one-quarter percent on the outstanding principal amount of these loans.

The program's administrative costs were paid out of the Authority's Operating Fund.

VI. Interest Buy-Back Program

The Interest Buy-Back Program was authorized by Public Act 91-0281 on July 23, 1999, to be used in conjunction with the State Guarantee Program for Restructuring Agricultural Debt. The Buy-Back program enabled eligible lenders, upon proper application, to receive from the State of Illinois a subsidy designed to reduce interest costs charged to certain borrowers using the State Guarantee Program for Restructuring Agricultural Debt. The legislation was enacted to provide relief to hog producers because of the severe market conditions hog producers faced in 1998 and 1999.

Under terms of the program, the lender received a subsidy equal to two percent annually of the loan principal balance of all eligible borrowers, up to $100,000 per loan, for five years. The lender agreed to fix the interest rate on the entire guaranteed loan for at least five years. The lender reduced the borrower's interest rate by two percent on the portion of the loan that is subsidized. Eligible borrowers must have participated in the State Guarantee Program for Restructuring Agricultural Debt and must have been a hog producer.

The program is no longer available. Subsidies of the program are paid out of the State's General Revenue Fund. A total of 109 loans amounting to $19,624,000 were approved for the Interest Buy-Back Program.

Summary of Agriculture and Fire Truck Loan Programs (Continued)

VII. Fire Truck Revolving Loan Program

The fire truck revolving loan program was authorized by Public Act 94-221 as a continuation and re-enactment of the fire truck revolving loan program originally enacted by Public Act 93-35, and later repealed by Public Act 93-205. The loan program provides zero-interest loans for the purchase of fire trucks by fire departments, fire protection districts, or township fire departments based on need, as determined by the State Fire Marshal.

Under the terms of the program the loans may not exceed $250,000 to any fire department or district. The repayment period for each loan may not exceed 20 years and requires a minimum repayment of 5% of the principal amount borrowed each year.

The loan funds are made out of the fire truck revolving loan fund, a special fund in the State Treasury. This fund received an appropriation from the State of Illinois of $6,200,000 in fiscal year 2005. A total of 46 loans amounting to $5,067,946 were issued and outstanding as of June 30, 2005.

Historical Summary of Agricultural Loans Issued by Program by County
June 30, 2004 (Unaudited)

Program:	Agricultural Development Bonds (Issued)		State Guarantee Program of Restructuring Agricultural Debt Loans (Issued)		Farmer and Agri-Business Loan Guarantee Program Loans (Issued)		Young Farmer Loan Guarantee Program Loans (Issued)		Specialized Livestock Loan Guarantee Program Loans (Issued)	
County	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Adams	71	$ 6,094,589	27	$ 4,304,838	1	$ 36,000	4	$ 526,000	3	$ 1,917,000
Alexander	-	-	1	180,000						
Bond	53	3,531,670	10	1,532,000			1	192,000	2	1,184,000
Boone	9	1,108,100	5	1,443,000						
Brown	2	160,000	14	3,436,000					1	840,000
Bureau	130	9,752,607	21	4,422,014			2	356,000	4	1,246,000
Calhoun	2	181,000	5	936,110			2	340,000		
Carroll	46	5,243,655	6	1,352,000					2	1,023,000
Cass	10	1,216,276	6	1,280,000	1	595,000			2	1,175,000
Champaign	65	4,248,464	22	3,831,011	1	362,000				
Christian	79	7,468,042	11	2,611,500			3	445,000	2	1,572,000
Clark	8	322,000	12	1,718,000						
Clay	45	2,762,679	6	1,079,000			1	85,000	1	780,000
Clinton	64	5,594,042	10	2,541,101	5	10,990,000	2	77,000	5	2,670,000

Historical Summary of Agricultural Loans Issued by Program by County (Continued)
June 30, 2004 (Unaudited)

Program:	Agricultural Development Bonds (Issued)		State Guarantee Program of Restructuring Agricultural Debt Loans (Issued)		Farmer and Agri-Business Loan Guarantee Program Loans (Issued)		Young Farmer Loan Guarantee Program Loans (Issued)		Specialized Livestock Loan Guarantee Program Loans (Issued)	
County	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Coles	20	$ 1,347,944	14	$ 2,317,000						
Cook										
Crawford	38	2,338,455	33	8,189,625	6	2,676,000	3	51,500	4	501,500
Cumberland	15	1,027,788	3	606,000	1	150,000				
DeKalb	61	5,260,839	36	10,057,000			1	40,000	8	4,032,000
DeWitt	14	685,675	3	940,000	1	225,000				
Douglas	43	2,892,011	17	2,712,750			1	124,000	1	700,000
Edgar	38	3,353,743	27	5,508,164	1	625,000	4	513,000	1	75,000
Edwards	10	493,100	1	135,000						
Effingham	34	3,100,000	1	85,000						
Fayette	39	2,538,230	7	1,561,000						
Ford	48	5,382,000	8	1,440,000					3	1,925,000
Franklin	46	2,571,865	16	3,892,000	2	3,695,000				
Fulton	30	3,796,600	13	2,211,900	2	172,000			1	88,000

Historical Summary of Agricultural Loans Issued by Program by County (Continued)
June 30, 2004 (Unaudited)

Program:	Agricultural Development Bonds (Issued)		State Guarantee Program of Restructuring Agricultural Debt Loans (Issued)		Farmer and Agri-Business Loan Guarantee Program Loans (Issued)		Young Farmer Loan Guarantee Program Loans (Issued)		Specialized Livestock Loan Guarantee Program Loans (Issued)	
County	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Gallatin	10	$ 1,643,750	6	$ 1,298,000	1	$ 450,000	2	$ 650,000		
Greene	1	250,000	10	1,896,000						
Grundy	11	903,375	11	2,408,000	1	160,000				
Hamilton	35	2,963,050	2	840,000			1	171,000	2	1,280,000
Hancock	35	3,223,406	38	5,914,888					4	782,000
Hardin					2	1,900,000				
Henderson	26	2,900,480	17	3,273,500	1	45,000	2	262,000	4	1,275,000
Henry	38	4,601,926	27	4,498,000			1	57,000	3	1,140,000
Iroquois	97	7,966,216	11	2,538,000					1	170,000
Jackson	5	467,780	7	1,246,000			1	71,000		
Jasper	71	4,018,637	43	8,027,200			2	240,000	11	1,637,000
Jefferson	15	852,300	9	1,473,000			1	40,000	1	790,000
Jersey	4	433,500	1	300,000						
JoDaviess	9	716,561	26	6,710,547	2	907,000			3	1,180,000

Historical Summary of Agricultural Loans Issued by Program by County (Continued)
June 30, 2004 (Unaudited)

Program:	Agricultural Development Bonds (Issued)		State Guarantee Program of Restructuring Agricultural Debt Loans (Issued)		Farmer and Agri-Business Loan Guarantee Program Loans (Issued)		Young Farmer Loan Guarantee Program Loans (Issued)		Specialized Livestock Loan Guarantee Program Loans (Issued)	
County	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Johnson	4	$ 413,650	7	$ 1,990,000						
Kane	4	351,200	17	4,116,000					3	1,915,000
Kankakee	10	1,269,270	2	438,000			1	46,000		
Kendall	3	273,000	9	1,642,000						
Knox	33	3,206,554	15	2,979,460	1	65,000	2	232,000	2	434,000
Lake			-							
LaSalle	103	9,897,730	32	5,936,300			1	54,000	1	1,000,000
Lawrence	45	3,140,338	9	1,945,500					3	3,000,000
Lee	55	6,222,362	22	5,599,000			1	110,000	1	455,000
Livingston	142	13,278,941	23	5,691,210	9	7,939,000	2	388,000	3	730,000
Logan	38	2,376,460	12	1,700,000			2	190,000	1	520,000
Macon	11	1,035,000	5	700,000			1	75,000		
Macoupin	28	3,344,462	22	4,453,000			3	416,000	6	3,400,000
Madison	20	2,076,940	16	4,359,000			9	1,756,000		

Historical Summary of Agricultural Loans Issued by Program by County (Continued)
June 30, 2004 (Unaudited)

Program:	Agricultural Development Bonds (Issued)		State Guarantee Program of Restructuring Agricultural Debt Loans (Issued)		Farmer and Agri-Business Loan Guarantee Program Loans (Issued)		Young Farmer Loan Guarantee Program Loans (Issued)		Specialized Livestock Loan Guarantee Program Loans (Issued)	
County	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Marion	10	$ 665,510	31	$ 6,022,160	1	$ 3,200,000	3	$ 640,000	2	$ 507,000
Marshall	24	2,029,081	7	1,530,000			3	513,000		
Mason	53	4,160,009	9	2,212,702	1	137,000				
Massac	2	30,000	2	435,000						
McDonough	11	1,028,550	14	3,116,000	1	300,000	1	87,000	1	520,000
McHenry	3	440,000	7	1,600,000			1	190,000	1	69,000
McLean	111	7,998,285	32	5,371,734			6	768,000	2	1,250,000
Menard	14	1,097,965	15	3,384,000			1	72,000		
Mercer	26	3,081,386	17	3,304,600			7	707,000	7	4,460,800
Monroe	35	3,880,075	26	5,758,707					1	51,000
Montgomery	70	8,343,990	15	3,458,577					5	1,952,000
Morgan	14	1,193,830	25	5,433,319	1	1,000,000	1	194,000	1	668,000
Moultrie	30	1,627,250	6	995,500	1	40,000			1	250,000
Ogle	69	6,735,047	10	2,335,000			4	751,000	1	90,000

Historical Summary of Agricultural Loans Issued by Program by County (Continued)
June 30, 2004 (Unaudited)

Program:	Agricultural Development Bonds (Issued)		State Guarantee Program of Restructuring Agricultural Debt Loans (Issued)		Farmer and Agri-Business Loan Guarantee Program Loans (Issued)		Young Farmer Loan Guarantee Program Loans (Issued)		Specialized Livestock Loan Guarantee Program Loans (Issued)	
County	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Peoria	23	$ 2,310,520	25	$ 6,037,000			2	$ 322,000	1	$ 150,000
Perry	10	636,256	19	3,672,900	3	1,020,000				
Piatt	36	1,702,807	9	1,638,000						
Pike	5	822,576	47	10,167,519	1	250,000	9	1,814,000	7	4,990,000
Pope			1	500,000						
Pulaski			3	940,000						
Putnam	10	972,859	5	568,681					1	615,000
Randolph	6	552,400	13	2,484,000			2	165,000	2	380,000
Richland	31	1,644,704	5	1,523,000	8	2,353,000	2	285,000	2	605,000
Rock Island	6	1,046,623	6	1,282,000					3	1,285,000
Saline	11	677,835	3	1,082,000			1	150,000		
Sangamon	34	2,345,315	39	7,330,000			1	300,000	2	925,000
Schuyler	8	698,780	-							
Scott	6	783,300	8	1,379,538						

Historical Summary of Agricultural Loans Issued by Program by County (Continued)
June 30, 2004 (Unaudited)

Program:	Agricultural Development Bonds (Issued)		State Guarantee Program of Restructuring Agricultural Debt Loans (Issued)		Farmer and Agri-Business Loan Guarantee Program Loans (Issued)		Young Farmer Loan Guarantee Program Loans (Issued)		Specialized Livestock Loan Guarantee Program Loans (Issued)	
County	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Shelby	74	$ 5,362,279	17	$ 3,570,267	1	$ 47,000	1	$ 81,000		
St. Clair	29	2,163,180	5	1,156,000	1	40,000				
Stark	20	2,256,500	15	3,612,000			1	300,000		
Stephenson	30	2,729,210	28	6,304,498	13	17,184,495	2	176,000	4	2,317,000
Tazewell	79	6,365,315	23	4,515,049			1	255,000	1	218,000
Union	21	1,131,036	2	800,000	1	860,000				
Vermillion	29	3,380,140	26	3,978,640	2	198,000	1	89,000		
Wabash	5	181,300	3	676,000						
Warren	46	5,369,746	17	3,507,000	1	4,000,000	3	589,000	6	2,295,000
Washington	35	2,203,570	9	1,849,000					1	1,000,000
Wayne	16	1,430,125	4	1,008,000	1	2,651,000			1	643,000
White	1	30,000	5	1,442,500						
Whiteside	87	9,126,095	26	5,138,000					6	2,552,000
Will	17	1,307,940	1	300,000						

Historical Summary of Agricultural Loans Issued by Program by County (Continued)
June 30, 2004 (Unaudited)

Program:	Agricultural Development Bonds (Issued)		State Guarantee Program of Restructuring Agricultural Debt Loans (Issued)		Farmer and Agri-Business Loan Guarantee Program Loans (Issued)		Young Farmer Loan Guarantee Program Loans (Issued)		Specialized Livestock Loan Guarantee Program Loans (Issued)	
County	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Williamson	2	$ 132,000	-		1	$ 1,750,000				
Winnebago	8	694,750	8	1,343,000	2	305,412	1	500,000		
Woodford	49	3,612,735	17	2,873,810	2	635,000	1	100,000	3	227,000
	3,079	$ 264,279,136	1,339	$ 277,930,319	80	$ 66,962,907	111	$ 16,555,500	151	$ 67,456,300

Service Efforts and Accomplishments (Unaudited)

Issuance Performance			
Total number of new issues		66	
New issue value	$	2,315,664,900	
Application fees	$	80,330	
Administrative service fees	$	4,977,492	
Operating Performance			
Total number of issues		818	
Total outstanding issue value	$	20,348,083,000	
Annual fees	$	1,747,670	
Annual fees/total outstanding issue value		0.0086%	
Total expenses	$	8,640,197	*
Total expenses/total outstanding issue value		0.0425%	
Total expenses/total number of issues	$	10,563	

** Excludes depreciation in the fair value of investments*